

THE WHITE HOUSE

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MEMORANDUM FOR THE PRESIDENT
THE CABINET

FROM

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STU EIZENSTAT *Stu*

SUBJECT

BRIEFING MATERIAL ON NATIONAL ENERGY PLAN

This memorandum will provide you with:

- The basic themes of our presentation on energy legislation. These can be used as talking points.
- An overview of the energy problem and how our Plan meets these needs.
- A schedule of major events in the coming weeks and information on the Conference.
- An outline of the major provisions of the National Energy Plan and a summary of House and Senate changes.

Attached to this memorandum is a suggested basic speech. Several optional inserts dealing with specific impacts (labor, farmers, consumers, international aspects) are included to help target speeches to specific audiences.

A set of the toughest questions and answers on the energy plan are also attached. Should you need any other information, we are happy to provide it.

BASIC ENERGY THEMES

1. With every passing day the energy problem grows worse.

We used more gasoline this summer than ever before.
We import more oil at higher prices than ever before,
and have become more dependent on uncertain foreign
supplies.
We continue to waste energy in our factories, our cars,
and our homes at rates which we cannot afford.

We continue to put off the hard choices and the sacrifices in hopes that the problem will go away -- it won't. There are no easy choices or comfortable solutions. But the disaster we face in the future if we fail to act is even harder than the choices we must make now. If we act now, while there is time, we can balance energy needs and energy supplies without severe economic disruption.

2. Enactment of a strong, responsible energy plan tests our will as a people, and tests the strength of our system of government. Can we, with our system of government, act to avoid disaster before its most severe effects become visible? Both the President and the Congress will be judged on their ability to act before a crisis overwhelms us.
3. Our extraordinary dependence on foreign oil -- which is costing us \$45 billion this year -- threatens our national security. We cannot afford to have our energy sources and prices held hostage to the desires and whims of foreign oil producing nations. Our huge oil bill drains billions out of our economy robbing Americans of jobs. It creates unacceptable deficits in our balance of trade.
4. The President's Energy Plan is balanced and fair. It relies on three principal strategies:
 - conservation -- making more efficient use of the energy supplies which we now have:
 - fair production incentives -- ensuring that our energy industries receive the revenues they need to find new domestic supplies of oil and gas without letting them profiteer;
 - conversion -- switching to more abundant energy sources such as coal and solar energy.
5. Energy prices will inevitably increase, with or without a plan. The President's Plan protects the consumer through:
 - keeping a ceiling on natural gas prices and making sure that increases are borne primarily by industry.
 - rebates to consumers to offset increased oil prices rather than giving windfall profits to the oil companies.

- insulation and utility rate reform programs to keep electric bills from skyrocketing.
- 5. The President's National Energy Plan would not raid the Federal Treasury. It would not bust the budget and swell the federal deficit. Solutions to the energy problem should not eat up resources which are needed for other national needs.
- 6. If we in government fail to act, the responsibility will be on our shoulders. Future generations will say "they could have saved us, but they didn't." The responsibility will be on the powerful, but the terrible cost of our failure will be paid by the average working family in this country.
- 7. The Congress and the President can act together to establish a National Energy Plan. This is the President's highest priority and the entire Carter Administration will continue to fight for the principles and the programs put forward last April. Congress should not recess for the year without an adequate energy bill. But no bill would be preferable to an unacceptable bill which fails to protect the consumer.

OVERVIEW OF THE PROBLEM AND THE PLAN

Production of oil and natural gas, which now supplies 75% of our energy, has been declining by 6% per year. Oil imports have doubled in the last five years and now make up half our supply. Imports will cost \$45 billion this year.

Before the end of the century, and perhaps as early as the mid-1980's, world demand for oil will outstrip capacity to produce. Even if price and foreign dependence were unimportant, we would still have to begin a transition away from oil and gas to other fuel sources. The National Energy Plan relies on three basic thrusts to guide this transition.

1. Conservation

The National Energy Plan combines regulatory programs, such as mandatory auto fuel economy standards, with economic incentives to encourage more efficient use of energy.

A key element of our conservation strategy is pricing energy at its true replacement cost. This permits us to harness the marketplace to stimulate conservation.

The basic mechanism for accomplishing replacement-cost pricing is the crude oil equalization tax (COET). While controls are maintained on old oil supplies to prevent producer windfalls, the COET is imposed at the wellhead to bring oil prices to the world level.

Revenues from the COET would be rebated to consumers on a per capita basis with a dollar for dollar rebate for home heating oil. The COET would be phased in over a three year period to prevent sharp economic disruptions and minimize inflationary impacts.

A second key element of conservation is the oil and gas user tax. Very large industrial users of these fuels would pay a gradually increasing tax to: (1) promote conservation, and (2) encourage conversion to alternate fuels.

Revenues from the oil and gas user tax would be available to industry to offset the costs of conversion.

The National Energy Plan provides other programs and incentives for conservation including:

- grants and low interest loans for weatherizing low income homes
- reform of utility rate structures to discourage waste
- business and residential tax credits for insulation, solar and other conservation investments
- retrofitting of federal buildings and local schools and hospitals
- a tax on gas guzzling automobiles to ensure that we meet fuel economy standards
- mandatory standards for major home appliances

2. Conversion to Alternative Fuels

Coal makes up 90% of U.S. energy reserves, but it supplies only 18% of current demand. Renewable sources of energy -- solar, wind, biomass, and geothermal -- are available in certain applications today. But major U.S. capital plant

investments made since the Arab oil embargo have not switched to these alternative fuels -- they have continued using oil and gas.

Under the national energy plan, utilities and other major fuel burning installations will be prohibited from burning oil and gas, except where environmental considerations prohibit use of coal. Incentives in the form of tax credits are provided for conversion to coal and renewable resources. Nuclear energy, in the form of light water reactors, will fill a gap during this transition.

Coal and renewable resources have been long neglected in our energy research and development budget. In our FY 1978 budget request, fossil fuel research increased by \$42 million. Solar and renewables programs will be revamped and emphasized. The Energy Department's R&D program will continue to shift to make up for neglect in moving these types of transition technologies forward, and to overcome some of the current difficulties associated with burning coal.

3. Incentives for New Production

Incentives must be given to stimulate new exploration and production of oil and gas, from both conventional and unconventional sources. The Plan, however, differentiates between reasonable incentives and windfall profits which would accrue if the price of all oil and gas were completely deregulated. Oil prices are set by an international cartel, not a free market. The Plan prevents domestic oil and gas prices from being tied completely to cartel-determined prices.

Nevertheless, the Plan, using discretionary authorities in existing law, provides for the equivalent of the world price for newly discovered oil. This is the highest price for oil anywhere in the world since many countries demand royalty or severance taxes far higher than the U.S. But the oil producers are asking for even more--they would like to deregulate prices from oil wells, many of which were producing profitably before the Arab oil embargo when the average domestic price of domestic oil was under \$4 dollars per barrel.

Natural gas is an even more valuable energy source than oil--it is cleaner burning, more versatile, and does not require extensive refining. Demand for natural gas is high, and were the price deregulated, even just for new gas, the price would soar to levels equal or higher than the world price equivalent for oil.

While we have had too much regulation of natural gas--over half the natural gas we now consume is priced at 32 cents per thousand cubic feet (mcf)--much of this comes from wells drilled in the 1950's and 1960's. Rewarding producers for past efforts which were profitably undertaken years ago ignores basic principles of equity.

While the Energy Plan maintains controls on conventional supplies of new natural gas, the \$1.75 price per thousand cubic feet is a generous increase over the current price. Just one year ago, the Federal Power Commission set the price of new gas at \$1.42--a price which was calculated to include: all increases in exploration and drilling costs, a 17% return on investment, compensation for loss of percentage depletion, a federal income tax rate of 48% (while most companies actually pay far less than that), and an additional increase to encourage conservation.

Finally, past experience in the unregulated intrastate gas market shows that higher prices have not managed to reverse the trend of dwindling supplies.

For unconventional sources of oil and gas, the Plan would provide the equivalent of deregulated prices. Similar incentives are provided to encourage enhanced recovery from old oil and gas wells.

In summary, the National Energy Plan is designed to meet seven basic goals by 1985:

- o To reduce the growth rate in energy consumption to 2 percent per year;
- o To reduce gasoline consumption by 10 percent;

- o To cut imports of foreign oil to less than 6 million barrels a day, less than half the amount that we will be importing if we do not conserve;
- o To establish a strategic petroleum reserve supply of at least a billion barrels, which will meet our needs for about 10 months;
- o To increase our coal production by more than two-thirds, over 1 billion tons a year;
- o To insulate 90 percent of American homes and all new buildings; and
- o To use solar energy in more than 2 1/2 million American homes.

SCHEDULE OF MAJOR EVENTS

Week of 10/17 - 10/23

- o House/Senate Conference begins on conservation.
- o President's trip to Michigan, Iowa, Colorado, and California with prepared energy speech in Des Moines on 10/21.
- o President meets with Senators, House conferees, consumer leaders and AFL-CIO.

Week of 10/24 - 10/30

- o House/Senate Conference continues on conservation, and possibly begins coal conversion.
- o Senate/Finance Committee report on tax measures filed; floor debate begins. Action expected by end of week or beginning of next.
- o Regularly Scheduled Presidential news conference; regular meeting with newspaper editors.

Week of 10/31 - 11/6

- Cabinet activities in full swing.
- Possible beginning of Conference action on tax portions.
- Possible initial Conference consideration of utility rate reform and/or natural gas regulation.

Week of 11/7 - 11/13

- Regular regional editors briefing with the President.
- Conference action continuing on all major controversial issues.
- Regularly scheduled Presidential news conference.

Beyond this point it is difficult to predict the issues under consideration in the Conference or the timing in moving toward completion.

CONFERENCE INFORMATION

The House has one set of conferees for all issues. Conference members were drawn from the Ad Hoc Committee on Energy which has representation from all standing committees with energy jurisdiction.

The Senate will have different sets of conferees for different issues. For example on conservation, all Senate Energy Committee members are participating. It is not now known which Senators will be conferees on the tax related portions of the bill, although they will be drawn from the Senate Finance Committee.

The Senate will vote on five separate conference reports (broken down to: conservation, coal conversion, utility rate reform, natural gas, and tax measures). The House will treat the Conference product as one bill.

OUTLINE OF MAJOR PROVISIONS OF THE NATIONAL ENERGY PLAN--SEE ATTACHED CHARTS

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

Administration Proposal

House Action

Senate Action

CONSERVATION

Buildings

1. Residential Conservation Tax Credit

- 25% of the first \$800 for specified energy conservation measures.
- 15% of the next \$1,400.
- The maximum credit is \$410.

- A 20% credit for the first \$2,000, for a maximum credit of \$400.

Finance Committee - adopted the House bill with an expanded list of eligible conservation investments.

2. Solar Tax Credit

- 40% of the first \$1,000 and 25% of the next \$6,400 for qualifying solar equipment for the first several years,
- declining by 1982 to 25% of the first \$1,000 and 15% of the next \$6,400.
- The maximum credit begins at \$2,000 and declines to \$1210 in 1982.

- 30% of the first \$1,500
- 25% of the next \$8,500
- The maximum credit is \$2,150.
- Includes wind equipment

Finance Committee - adopted the House bill and expanded the coverage to include leased equipment.

3. Weatherization Financing

- \$585 million direct grant program for low-income residence owners.
- Creation of a secondary mortgage market for residential conservation loans.

Passed the Administration's program and added a GNMA subsidized interest rate loan program for residences owned by individuals who earn up to 90% of the median income. Also raised the grant program cutoff to families with incomes at 125% of the poverty level.

Same as House

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Buildings (cont.)</u>		
4. Utility Insulation Program		
Utilities would be required to offer insulation information, offer loans repayable through utility bills and offer to arrange for installation.	Passed provision similar to the Administration's proposal with an opportunity for States and the Federal government to prevent installation by a utility if an anticompetitive finding is made of any given utility's actions under the program.	An individual utility must petition DOE to be allowed to install or make loans. DOE must find that the program would not be unfair or deceptive. Otherwise similar.
5. Schools and Hospitals Conservation Program		
Provides up to 40% grants to States for the installation and design of conservation initiatives in schools and hospitals.	Increased grants to 50% (90% in certain hardship cases); also expanded coverage to nursing homes and day care centers.	<u>Finance Committee</u> - Same as Administration, except grants are increased to 50%. Also made the tax credit refundable.
6. Municipal Buildings Conservation Program		
No program	Provides for energy audit and technical assistance grants for energy conserving initiatives in buildings owned by units of local government.	No program

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Buildings (cont.)</u>		
7. Federal Buildings		
- Energy Efficiency Program		
Retrofit program to reduce energy conservation 20% in all existing Federal buildings, and 45% in all new Federal buildings. (Administrative)	Requires a schedule that meets total retrofit goal of 20% by 1990. (legislative)	Calls for a study on the feasibility of reaching the goals by 1990. (legislative)
- Solar Program		
o \$100 million Federal building solar demonstration program.	Same as Administration	Same as Administration
o Photovoltaics	Added a \$39 million program for further development of photovoltaic technology.	Same as House
No program		
8. Mandatory Standards For New Buildings		
Advanced the effective date of previously existing standards for 1981 to 1980. (Administrative)	Authorized \$20 million for state aid to meet the Administration's objective.	Same as House

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

Administration Proposal	House Action	Senate Action
CONSERVATION		
<u>Transportation</u>		
1. Gas Guzzler Tax/Truck Standards		
Graduated excise tax on cars and light trucks which fail to meet EPCA standards. Graduated rebates for vehicles with fuel economy above the standard. Taxes begin in 1978. The tax in 1985 would range from a low of \$67 per car to a high of \$2,488. Also implemented existing discretionary authority to set truck standards.	Excise tax if fuel economy falls more than 3 to 6 mpg below EPCA standards. No rebates. Taxes in 1985 would range from a low of \$397 to \$3,856 per car in 1985. Eliminates applicability to trucks.	The gas guzzler tax was rejected. Instead, the Senate passed an amendment to EPCA which simply prohibits the construction of low mileage automobiles (16 mpg in 1981 rising to 22 mpg in 1985), and doubles the civil penalties assessed against the companies for not meeting the EPCA average fleet standards.
2. Gasoline Taxes		
Standby tax - five cents per gallon tax in 1979, increasing 5 cents every year in which consumption exceeds certain predetermined target levels. Taxes would be rebated on a per capita basis through the tax system.	Rejected standby tax. Extended existing 4 cent excise tax to 1985.	Same as House
3. Blended Motor Fuels		
No program	No program	Exempted motor fuels using a blend of alcohol from the gasoline excise tax.

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Transportation (cont.)</u>		
4. Deduction for State and Local Gasoline Taxes No proposal.	Repeals Federal tax deduction for State and local taxes on gasoline.	<u>Finance Committee</u> - rejected repeal of deduction.
5. Repeal 10% excise tax on inter-city buses.	Similar to Administration but expanded to cover excise tax on all buses and bus parts, and on certain related equipment.	<u>Finance Committee</u> - Same as House. Also added a 5 year, \$200 million refundable tax credit for inter-city buses and terminals to reduce fares and improve facilities.
6. Electric Automobiles Eligible for maximum gas guzzler rebate.	Provided for a \$300 tax credit for any electric automobile.	<u>Finance Committee</u> - same as House.

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Transportation (cont.)</u>		
7. Aviation and Marine Fuel		
Current 2 cent tax rebate on marine fuel would be eliminated. Excise tax on fuel used for noncommercial aviation would be increased from 7 cents to 11 cents.	Adopted proposal on marine fuel. Aviation fuel proposal not adopted.	Same as House
8. Van Pooling Programs		
Purchase 6,000 Federal vans for demonstration pooling program.	Deleted program	Passed Administration's program. Finance Committee - added a 20% investment tax credit for vans used by a taxpayer to transport employees to and from work.
9. Other Programs		
—	--	Finance Committee - provided for a 10% investment tax credit for transportation energy saving devices.

Administration Proposal

House Action

Senate Action

CONSERVATION

Electric Utility Regulatory Policies

- rates must be cost justified
- eliminate declining block rates
- offer time of day pricing
- master metering prohibited
- FERC authorized to require pooling and wheeling to take advantage of regional efficiencies

Administration proposal plus:

- funding of intervenors
- creation of Public Counsel's office
- tightening of rules on interlocking directorates
- \$300 million program for small hydroelectric facilities
- prohibition against wholesale rate increases without a hearing
- promotional advertising not allowed in rates

Very limited bill that provides only for:

- authority to intervene in State hearings
- information gathering on rates throughout the Nation
- lifeline rates nationwide

Crude Oil Equalization Tax (COET)

- tax the difference between controlled oil price levels and the world price, imposing the full tax over a three year period with three equal increments of tax
- rebate the proceeds of the tax to every American on a per capita basis through a reduction in withholding for taxpayers or through appropriate state agencies for non-taxpayers
- dollar for dollar rebate for home heating oil

Adopted the Administration's proposal but provided for rebates only for the first year, and on a taxpayer, rather than per capita, basis

Finance Committee - Defeated COET proposal but issued instructions that if COET were adopted in conference:

- the tax should be phased out over time
- the funds should be channeled into energy development through an Energy Development Corporation or Trust Fund

ACTION TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
CONSERVATION		
<u>Industrial Cogeneration</u>		
<ul style="list-style-type: none">- provides for an exemption from PUC regulation of industrial cogenerators- cogeneration equipment eligible for 10% additional ITC- exemption from oil and gas conversion requirements if necessary to get cogeneration benefits- prohibits discrimination by PUC or utilities against industrial cogenerators	<ul style="list-style-type: none">- cogeneration equipment eligible for a 10% additional ITC- qualified cogenerators receive preferred utility user tax treatment under the oil and gas users tax	<ul style="list-style-type: none">- cogeneration equipment eligible for 10% additional ITC
<u>Mandatory Appliance Standards</u>		
<ul style="list-style-type: none">- requires establishment of mandatory efficiency standards for seven categories of base appliances. The Administrator is given discretionary authority to set standards for six other categories- no deadline is established for standard setting	<ul style="list-style-type: none">- requires industry standards for all 13 categories- establishes a two-year deadline for the first seven categories, three years for the last six	<ul style="list-style-type: none">- requires industry standards for the seven categories in the NEP, plus two additional categories- establishes a 1980 deadline

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

Administration Proposal

House Action

Senate Action

PRODUCTION AND CONVERSION

1. Natural Gas Pricing Policy

- Abandons cost-based pricing of new gas in favor of a commodity value pricing approach.
- Establishes a Btu-related new gas price equal to the average price of all domestic oil, or approximately \$1.75 per mcf by early next year, which increases to over \$3.00 per mcf by 1985.
- Old interstate contracts stay at the current price unless a higher price is needed to maintain production.
- Old intrastate contracts increase to the \$1.75 level.
- High cost new production is eligible for a special incentive price (deep drilling, tight formations, geopressurized methane, Devonian shale, etc.).
- Incremental pricing passes the higher costs of new gas first to the industrial sector.
- New gas is defined as anything beyond 2 1/2 miles of an existing well or 1,000 feet deeper than any well within the 2 1/2 miles radius.

Cost to Consumer-\$15 billion over current approach from '78 to '85.

Gas Production Increase-1.1 additional trillion cubic feet in '85.

Same as Administration proposal except that:

- New gas is defined to include gas from any new reservoir.
- Old intrastate contracts remain at their old price unless a higher price is needed to maintain production.

Cost to Consumer-\$1 billion over Administration approach

Gas Production Increase-same as Administration

- Deregulates new onshore production immediately
- Provides for 5 more years of offshore regulation based on a new commodity value formula.
- New gas is more loosely defined, including gas from new reservoirs and extensions of existing reservoirs.
- Old intrastate contracts get the deregulated prices.

Cost to Consumer-\$70 billion over House from '78 to '85

Gas Production Increase-.4 trillion cubic feet over House in '85

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
PRODUCTION AND CONVERSION		
2. Oil Pricing Policy (Administrative) <ul style="list-style-type: none"> o Current upper and lower tiers are granted increases with inflation. o New oil is allowed to rise over three years to today's world price, plus inflation. o Tertiary recovery is allowed today's world price immediately. <p>Savings to Consumers-\$10 billion from '78 to '85.</p> <p>Oil production increase-100,000 barrels per day by 1985.</p>	No action required	No action required
3. Oil and Gas Minimum Tax Treatment on Intangible Drilling Costs (IDC) <p>Oil and gas producers pay a minimum tax only on the portion of IDC deductions that exceeds the net income from oil and gas properties. This gives all independent producers the same treatment previously available primarily to majors.</p>	Adopted Administration position.	Adopted Administration position.
4. Geothermal Production <p>Grants the same intangible drilling cost deduction that is available to oil and gas producers.</p>	Accepted the Administration's proposal and also granted a 10% depletion allowance.	<u>Finance Committee-</u> <ul style="list-style-type: none"> - accepts House action on intangible drilling costs. - grants a 22% depletion allowance.

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
PRODUCTION AND CONVERSION		
5. Geopressurized Methane Provided the special high cost pricing provision discussed above in the natural gas bill.	Same as Administration	<u>Finance Committee-</u> In addition to the deregulation provided for in the gas pricing bill which passed the Senate, the Committee also provided for a -\$.50 per mcf tax credit -20% investment tax credit -10% depletion allowance -Intangible drilling cost deduction.
6. Shale Oil Provided with the world oil price (Administrative)	No action	<u>Finance Committee -</u> provided an additional \$3 per barrel tax credit
7. Nonconventional Gas Provided the special high cost pricing provision discussed above in the natural gas bill.	Same as Administration	<u>Finance Committee -</u> \$.50 per mcf credit.

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
PRODUCTION AND CONVERSION		
8. Peat	No action	<u>Finance Committee</u> - Increases depletion allowance from 5% to 10%.
No action		
9. Business Energy Tax Credits		
Additional 10% investment tax credit for:	Similar to the Administration but excludes heat pumps from eligible property.	<u>Finance Committee</u> - Similar, but list of eligible property is expanded to include recycling equipment.
- insulation of existing facilities,		
- alternative energy property: boilers and other combustors using coal or other fuels, solar, low Btu coal gas, etc.	Also eliminates the regular investment tax credit for any new oil or gas fired facilities, unless such facilities are exempted from the regulatory program discussed below.	Also passed a refundable 40% alternative energy property credit. This credit expands the alternative property definition to include geothermal, feedstocks from coal, hydro power, solar and wind, and ocean and tidal power.
- specially defined energy property (conservation equipment), but only if retrofit onto existing facilities.		

Administration ProposalHouse ActionSenate Action

PRODUCTION AND CONVERSION

10. Oil and Gas Users Tax

- Tax on 1000 largest (85,000 bbl/yr or more) industrial and utility users. Oil is taxed at a flat rate, increasing to \$3 per bbl in 1985 for industrial users. Natural gas taxed at an amount set to make its cost equal to the pre-tax cost of distillate oil by 1985. Utilities are taxed at 1/2 the industrial rate for oil and the phase-in for both the oil and gas utility taxes is slower.

- Credit against user taxes. Any investment in alternative energy property (defined in the Business Energy Tax Credit section above) is eligible for a 100% credit against current year user taxes. Carry forward of any remaining credit.

Utilities are eligible for the credit only to replace existing oil or gas fired facilities.

Firms must elect between this credit and the business energy investment tax credit.

The coverage is expanded by using a 50,000 bbl/yr exemption, which includes approximately the 1400 largest firms. A lower tax rate is imposed for oil and gas use by nonboilers. Exemptions are provided for environmental reasons and for most process uses where the flame comes into contact with the product.

Similar to Administration proposal, except that if a company elects to utilize the user tax credit, it is ineligible for either the regular 10% or the additional 10% energy investment tax credit.

Finance Committee -
rejected the user tax and rebates. Instead, relied upon tax credits only, including the new 40% alternative energy property investment tax credit described above.

Finance Committee -
No provision; relied solely upon tax credits.
(See above)

ACTIONS TAKEN ON THE NATIONAL ENERGY PLAN

<u>Administration Proposal</u>	<u>House Action</u>	<u>Senate Action</u>
PRODUCTION AND CONVERSION		
11. Coal Conversion Regulatory Program		
<ul style="list-style-type: none"> - Blanket prohibition on any new utility or major industrial boiler that burns oil or gas. - Discretionary authority to prohibit use in nonboilers. - Case by case approach for ordering existing facilities to convert to alternative fuels. - Exemptions allowed if coal cannot be used for environmental, economic or technical reasons. - Covers facilities of 10 megawatts or greater. - All utilities are required to be off natural gas for baseload purposes by 1990. 	<p>Accepted Administration program except the coverage of existing facilities extends only to 30 megawatt or larger facilities; smaller units may be included in the prohibitions if certain findings are made.</p> <p>No nonboiler authority.</p>	<p>Similar to Administration program except the coverage is only down to 30 megawatts for new oil facilities, 10 megawatts for gas.</p> <p>Provides for only limited nonboiler authority.</p>

October 19, 1977

1985 Energy and Revenue Impacts of
Administration, House and Senate Energy Bills

(Oil savings in thousands of
barrels per day)

	<u>Administration</u>	<u>House</u>	<u>Senate</u> ^{1/}
Energy Savings Estimates			
Conservation Programs			
o Transportation	355	275	175
o Buildings, Appliances and Industrial	<u>955</u>	<u>1,015</u>	<u>1,025</u>
Subtotal	1,310	1,290	1,200
Production and Conversion Programs	<u>3,190</u>	<u>1,610</u>	<u>2,200</u>
Total	4,500	2,900	3,400
Revenue Impacts (million current dollars)	+1,000	-19,000 ^{2/}	-55,000 ^{3/} to 65,000 ^{3/}

1/ Preliminary estimates

2/ Assumes full rebate of crude oil equalization tax. If rebate is only for FY 1978, net impact is a + \$7.6 billion.

3/ Final estimates being developed by the Administration and Joint Committee on Taxation.

COMPARING THE CARTER PLAN AND PREVIOUS PLANS

Q. It seems to me that the Carter Energy Plan basically relies on higher prices to encourage conservation. That is exactly what the Ford Energy Plan did. How does the Carter plan differ from the Ford Plan?

A. The Carter Plan attempts to affect the investment decisions of American consumers and industry through a pragmatic combination of regulation and higher prices.

Both the Ford and Carter plans rely on higher prices. The basic difference is who receives the proceeds of those higher prices. Under the Ford Plan, billions upon billions of these dollars would have gone to the nation's oil and gas producers.

Under the National Energy Plan, almost all the increases in price - with the exception of the gas guzzler tax and a small portion of the user tax - are returned directly to the American public and the economy.

Thus, the National Energy Plan provides a blueprint for reaching our energy objectives without disadvantaging or unjustly enriching any segment of society. It is also a comprehensive proposal that uses regulation, as well as the pricing mechanism, in the area of conservation, coal conversion, and utility rate reform. It covers many more aspects of the energy problem with a far broader range of approaches than previous plans.

INSULATION CREDIT

Q. Your residential insulation credit is likely to substantially increase the demand for residential insulation. If the industry does not have the capacity to meet this demand, the result will simply be increased insulation prices which will in turn eat away at the benefits associated with the credit. Why has the Administration proposed such a circular program that ends up benefiting only the insulation manufacturers?

A. A number of different studies of the capacity of the insulation industry to meet increasing demand under the National Energy Plan reach differing conclusions. For this reason we intend to carefully monitor industry claims that capacity will double in the next several years and that supply will be sufficient. If prices begin rising or if anyone takes advantage of tightening supplies, the Administration will be prepared to act.

It is important to note, however, that the tax credit in question applies to conservation measures other than just insulation. If the price of insulation does rise to the point where an investment in it is not cost-effective, then homeowners will shift their conservation investments from insulation to storm doors or windows or clock thermostats. Even if insulation prices do rise as a result of increased demand, the credit will thus result in much-needed energy savings.

ECONOMIC IMPACT

Q. What is the impact on the economy of the National Energy Plan? With all the taxes and the money being drained from the economy, won't it result in reduced GNP, and increased inflation and unemployment?

A. A number of different analyses, including our own, conclude that the Plan will have no significant impact on the growth of real Gross National Product (GNP) or unemployment in the 1977-1981 period. The Plan will have a measurable, but modest net inflationary impact of 0.3 to 0.4 percent annually over the next two years and 0.1 to 0.3 percent annually over the following two years.

Under the plan, taxes collected are recycled immediately back into the economy. This reduces to an absolute minimum the potential fiscal drag effects of the higher energy prices that are designed to help change energy investment habits. Additionally the insulation and new construction activity which will result from the plan will stimulate the economy and provide jobs. Initiatives like utility rate reform will reduce utility industry capital requirements by \$40 to \$75 billion between now and 1985, thus offsetting some of the higher energy costs that will result from the Plan.

The National Energy Plan is designed to help the nation avert the total economic disaster that would occur if imports are not reduced and the time approaches when world oil demand runs into world oil supply.

THE PLAN AND THE ENVIRONMENT

Q. Isn't the Energy Plan, particularly coal conversion, detrimental to the environment?

A. Under the coal conversion program we estimate that over 1/3 of all new industrial facilities will be burning coal. About 10% of existing facilities will convert, and an additional 10% will either convert or be retired earlier than they would have been without the Plan.

These are relatively conservative estimates and assume that coal cannot be burned in some areas of the country because of environmental restrictions. The Plan does not require that conversion take place on facilities which would be unable to meet ambient air quality standards. The Administration has also supported requiring all coal plants to use best available control technology to provide additional margins of protection.

The National Energy Plan recognizes that there are some questions, such as the impact of carbon dioxide (CO₂), which need further study. These efforts are currently underway. The Department of Energy will also be funding a strong research and development program to develop better ways of burning coal.

MASS TRANSIT

Q. Mass transit is one of the most efficient means of saving energy in urban areas. Why didn't the National Energy Plan deal with this issue?

A. The Secretary of Transportation, Brock Adams, has been working on development of a comprehensive national transportation policy since last spring. In recent years, a number of serious economic questions have been raised about the viability of traditional, fixed-rail transit options. Since a detailed analysis of urban transit questions was to be undertaken in the DoT review, the Administration determined that it was best to address these issues in that context.

The Administration does, however, place a high priority on finding responsible, economically sound answers to mass transit problems.

ADEQUACY OF PRODUCTION INCENTIVES

- Q. The major emphasis in the program appears to be on conservation. But production of energy in this country is just as important. Why doesn't your program have any production incentives in it?
- A. The National Energy Plan provides for very generous production incentives. New oil will be given the highest price available anywhere in the world -- the \$14.50 per barrel world oil price. This encourages producers to explore for new supplies knowing they will receive the maximum net return per barrel for new oil.

The Plan does not, however, allow producers of oil from old wells to receive the world price. Most costs associated with these wells are already sunk, and most were drilled in expectation of a substantially lower price than is available today. The inventory profits that would result from deregulating such old oil would be unrelated to any new productive activity on the part of the producers, and would only contribute to accelerating inflation of production inputs (rigs, pipe, etc.) This would not produce any significant new supplies of energy.

The natural gas pricing provisions in the National Energy Plan abandon the cost based over-regulation of

the past in favor of a new commodity value pricing approach that establishes a price for new natural gas at the Btu equivalent price of domestic oil. This price will start at \$1.75 per thousand cubic feet (mcf) later this year and rise to over \$3.00 per mcf by 1985. It will move up with the oil price. This is a price substantially higher than the regulated price for new interstate gas of just 50 cents per mcf several years ago. It represents a six to seven fold increase in natural gas prices since the embargo. It compares favorably with the \$1.45 mcf price set last year by the FPC which allowed for a generous 17% rate of return and for a 48% tax level (which few if any oil companies actually pay). Additionally, special high cost new production from unconventional sources (such as deep drilling, tight formations, Devonian shale, geo-pressurized methane) would be deregulated.

The National Energy Plan's gas pricing approach would increase gas producer revenues by over \$15 billion between now and 1985. It would produce over 1 trillion cubic feet of additional gas in 1985. While deregulation would increase revenues by at least another \$70

billion, it would increase production by only 2% in 1985. The National Energy Plan sets the natural gas price at a level which maximizes production and avoids unfair and unproductive revenues accruing to the producers.

DEREGULATION: WHY NOT?

Q. Natural gas production has been steadily dropping. Why not give deregulation a try and see what a free market would produce?

A. First, the free market isn't free. Gas prices would be set at the equivalent of the world price of oil. And that is set by the OPEC cartel.

We currently use a system where expensive supplies of gas are "rolled in" with cheaper supplies. Since over half of all interstate gas is still priced at 32¢ per thousand cubic feet (Mcf), deregulated prices of new gas could rise well above the equivalent of the world oil price and still stay within relatively competitive margins when rolled in.

But even \$4, \$5, or \$6 per Mcf does not produce very much more conventional natural gas than would the \$1.75 per Mcf price in the National Energy Plan. The President's proposal will increase natural gas production by over 1 trillion cubic feet in 1985 as compared with the production which would result from the current controlled price of \$1.45 per Mcf.

The cumulative increase in gas producer revenues is \$15 billion from 1978 to 1985 over the current system.

Deregulation would cost another \$70 billion, but would produce only 2% more gas (400 bcf) in that year. Under deregulation, the price of this increment of supply would be \$64.00 per Mcf -- an exorbitant price to pay for so little supply.

CAMPAIGN PROMISE ON
NATURAL GAS

Q. During the campaign, the President pledged to work with the Congress to deregulate natural gas. Why did he change his mind so drastically on such a critical issue?

A. The President carefully reviewed his campaign statement on natural gas deregulation prior to announcement of the National Energy Plan. A key consideration in his analysis was what the economic impacts of such a step would be at this time. The President determined that the consequences of deregulation would be disastrous for the economy. He added that it would not solve long range problems of dwindling supply.

In his April 20 address to the Congress, the President stated, "I want to work with the Congress to give gas producers an adequate incentive for exploration, working carefully toward deregulation of newly discovered natural gas as market conditions permit."

By providing a substantially higher price for new natural gas -- which phases upwards to the world price over time -- the National Energy Plan provides producers with fair incentives for production without substantial economic disruption or unwarranted windfall profits.

LAST MINUTE EFFORT

Q. Why did the Administration wait until so late to begin what appears to be a last minute, desperation blitz to save its energy bill?

A. It is important to remember that the National Energy Plan contains some 113 proposals. After the President's initial announcement and meetings with House members, the legislation was spread out in sections to numerous Committees in both the House and Senate. It has been difficult to focus public attention on all the elements of the plan under these circumstances.

The House-Senate conference which begins soon is the first time since late last spring when attention could be drawn to one group and one set of issues. It has been clear for some time that the Conference would be a critical phase in the shaping of the National Energy Plan. To all minds, this is the most appropriate time to launch an all-out effort to enact the Administration's proposals.

GAS GUZZLER TAX AND THE LARGE FAMILY

Q. Doesn't the gas guzzler tax seriously discriminate against the large family that needs a station wagon or sedan as a family car?

A. It does not, because Detroit has already begun manufacturing family size sedans and station wagons which get very impressive mileage. While these cars are not high-speed, high performance, their driveability represents a sound and acceptable trade-off for increased fuel economy. Numerous makes and models are available to meet the needs of larger families while meeting the required mileage as well.

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OPEC PRICES

- Q. If a major concern about the energy problem is OPEC prices, why does the Administration tie its crude oil equalization tax to the OPEC price?
- A. The crude oil equalization tax (COET) taxes the difference between the price of controlled domestic oil and the 1977 world oil price, adjusted for inflation. The tax would be phased in over a three year period. Whether we like it or not, the world oil price reflects the cost of replacing a marginal barrel of oil. If the cost of domestic oil is less than the world price, the U.S. will continue to subsidize increasing levels of imports which we cannot afford.
- The COET will recoup for the consumer the difference between the controlled oil price and the world price. This provides a strong measure of protection to U.S. consumers and to our economy. Additional protection is provided in the Administration's plan by tying COET to the 1977 world price, adjusted for inflation. If the actual world price should increase faster than inflation, the U.S. costs need not go up that quickly.

FOREIGN COMPETITION

- Q. Doesn't the proposed oil and gas user tax discriminate against United States industries vis a vis their foreign competitors?
- A. The oil and gas user tax should not have any appreciable impact on the competitive position of United States industries for the following reasons:
1. The price impacts resulting from the tax average less than 1% for all industrial categories, and, except for aluminum, less than 2% for any individual industry.
 2. The taxes will be equivalent to the world price except for boiler use of oil. In that case, the tax is \$3.00 above the world price. If oil isn't made more expensive than gas, boiler users would likely shift to increasing amounts of residual fuel oil, putting a further strain on imports.

IMPACT ON THE FEDERAL BUDGET

Q. What is the impact on the Federal Budget of the massive expenditures of the National Energy Plan, particularly the tax portions?

A. As submitted to the Congress, the National Energy Plan would yield about a \$1 billion surplus to the Treasury, on a cumulative basis between now and 1980.

The bill passed by the House would result in a \$19 billion cumulative deficit between 1978 and 1985. This loss of revenue is due primarily to changes in the the oil and gas user tax which exempt various categories of industry.

The budget deficit created by the action of the Senate (with the tax portions calculated on the basis of Senate Finance Committee action) would be \$55 billion, 1978-1985. This level of deficit is not necessary and is unacceptably high.

The Administration has stressed its concern that the energy plan not raid the Federal Treasury. The Administration will work with the Conferees to develop legislation which comes as close as possible to providing a balanced energy budget.

IMPACT OF PROGRAM

Q. Won't this program impose the largest peacetime tax in the Nation's history? The Chamber of Commerce, among others, have claimed that the program will cost \$1,400 per person in increased energy costs. How can we tolerate such impacts?

A. Those who would make such claims are deliberately misleading the public.

There are two major taxes in the Plan -- the Crude Oil Equalization Tax (COET) and the oil and gas users tax. Neither is designed to raise revenues, but rather to change price relationships for the purpose of affecting energy investment decisions.

COET is designed to bring the price of domestic oil up to its true marginal OPEC cost and almost the entire proceeds of the tax are rebated to American consumers.

It is interesting that many of those who oppose the tax, nonetheless favor deregulation of natural gas prices.

Deregulation would result in an equivalent amount of billions over the same period of time being drained from the economy. Instead of being rebated, however, such revenues would permanently accrue to a handful of oil companies. The real danger to the economy from a drain on disposable income is deregulation, not COET.

IMPACT ON POOR

Q. The cornerstone of the plan seems to be higher energy prices. Those who can least afford these prices are the poor. But the plan does nothing for them. How can you have a plan that relies on higher prices without helping the poor?

A. While the National Energy Plan recognizes that energy prices must increase, it also recognizes that these increases cannot occur at the expense of the poor and near poor. The Plan is progressive.

Through rebates from the well-head tax, the total income of poor people is increased by \$3.5 billion during the first three years of the program.

The overall impact of the National Energy Plan on the poor will be to increase disposable income by 3 percent over what it would otherwise be in 1985 without the Plan. By 1985, the Plan will reduce home fuel expenditures by about \$100 for poor households.

The Plan contains a number of specific programs designed to help keep energy costs down for low income people:

- o The National Energy Plan increases the monies available for weatherization grants to \$585 million. This is three times higher than the previous program and will cover 14 million U.S. families.

- o Continuation of natural gas price controls and use of incremental pricing for industry which will shield consumers from natural gas price increases.
- o Emergency assistance program administered through HEW to aid in times of special need, such as an extremely cold winter.
- o Minimum requirements for utility rate reform to help reduce costs of electricity for low income families. (Note: the Administration plan does not require "life-line" rates to provide subsistence levels of energy at low prices, but the Administration has been supportive of initiatives undertaken by state public utility commissions to develop these types of programs.)

NUCLEAR POWER

Q. In the Energy Plan and during the President's campaign, he spoke of nuclear energy as the energy source of last resort. But the plan seems to call for a substantial increase in the number of nuclear plants, and nuclear licensing legislation, which your Administration now has under consideration, would appear to facilitate that expansion of our reliance on nuclear energy. How do you account for the difference between the campaign rhetoric and the actual substance of the Plan?

A. The real danger from nuclear energy is the possibility of our moving toward a plutonium economy. The threat to our health, as well as the political stability of the world, from the proliferation and free trade of plutonium is serious.

That is one of the reasons why the President has opposed construction of the Clinch River Breeder Reactor Project. He is taking the lead in curtailing the spread of plutonium-based nuclear technologies by asking other countries to join with us to evaluate alternatives to the plutonium economy.

The Light Water Reactor can provide a reliable and safe source of needed electricity.

As we face the reality of the need to lessen our dependence on oil and natural gas, coal and nuclear energy are essential options which both must be pursued.

BIG GOVERNMENT

Q. Doesn't the National Energy Plan represent a massive increase in Federal power over the economy?

A. The National Energy Plan was designed to keep Government's intervention into the lives of American citizens to an absolute minimum. It is for this reason that the tax on crude oil, the oil and gas users tax on large industries, and a tax on gas guzzling cars were proposed. They are all measures designed to affect investment decisions while preserving the individual's freedom of choice. We could have gone the heavy regulation approach, relying on initiatives such as rationing, and allocation. But we didn't. Through the use of incentives, the President wanted to give the American public a chance to act voluntarily. The President has stated, however, that if this fails, mandatory measures will be proposed.

GOALS OF THE PLAN

Q. Numerous studies have indicated that the National Energy Plan simply falls short of the goals set by the President. Why bother if the plan is so deficient?

A. It is interesting to note that all the studies of the Plan had positive things to say about it. CBO, GAO, and OTA, all agreed with the general thrust of the Plan.

Only CBO did an independent estimate of the Plan's total savings. They found that the Plan would achieve about 75% of the savings outlined in the President's goals. The basic area of difference was in the projected savings under the Coal Conversion program. CBO estimated a lower level of coal use by new facilities than the Administration did. The Administration believes its estimates are more realistic since it would have authority to ban oil and gas use in new facilities. For most other areas in the Plan, CBO agreed with our projections.

To the extent that any projections fall short of the goals laid out by the President, such findings tend to argue for a plan even stronger than the Congress is now considering.